

Message Text

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SUBJ: US ECONOMIC STRATEGY IN RELATION TO NON-ALIGNED

ACTIVITIES IN INTERNATIONAL ORGANIZATIONS

REF: STATE 99106

1. THIS TELEGRAM, WHICH CONSTITUTES SECOND PART OF REPLY TO
EFTEL, ADDRESSES ECONOMIC SOURCES OF DIFFICULTIES DISCUSSED
THEREIN AND OUTLINES A PROPOSED STRATEGY FOR USG.

2. SUMMARY: LDC FRUSTRATION IN RESPONDING TO INTERNAL PRESSURE
FOR INCREASED CONSUMPTION LEVELS HAS PROMOTED THEIR UNITY TO
FORCE UNITED RESOURCE TRANSFERS FRON DC'S ALONG LINES OF
RECENT OPEC ACTION. ALTHOUGH USG, FOR LEGITIMATE REASONS,
OPPOSES SUCH "CONSUMER TAXATION" AS RESOURCE TRANSFER MECHANISM,
NO COHERENT AND MEANINGFUL ALTERNATIVE APPROACH TO DEVELOPMENT
FINANCING HAS BEEN OFFERED. WE BELIEVE FEASIBLE STRATEGY
EXISTS BASED ON EFFECTIVE LDC INVESTMENT UNDERWITING. KEY
ELEMENT STRATEGY IS USE OF IDA FUNDING OF LOCAL COSTS FOR IN-
FRASTRUCTURE AND HUMAN INVESTMENT. OVER LONG RUN, THERE MUST
BE DC COMMITMENT TO INCREASED TRADE BETWEEN DC'S AND LDC'S ON
BASIS OF COMPARATIVE ADVANTAGE. END SUMMARY.

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3. WITH REGARD TO EFFECTIVENESS USG ECONOMIC POSTURE IN INTERNATIONAL FORA, ESSENTIAL PROBLEM APPEARS TO BE LACK OF COHERENT USG STRATEGY RESPONSIVE TO LEGITIMATE LDC ASPIRATIONS. FROM LDC VIEWPOINT, CURRENT SITUATION CAN BE REASONABLY DESCRIBED AS HOPELESS IMPASSE. INEVITABLE RESULT IS GROWING CONFROMTA- TION. THIS MESSAGE ARGUES POSSIBILITY FOR PRAGMATIC COOPERATION EXISTS.

4. LDCS ARE INCREASINGLY UNITED IN POLITICAL NECESSITY TO INCREASE THEIR PER CAPITA CONSUMPTION LEVELS. AT SAME TIME, DCS, PARTICULARLY US, WILL NOT AND SHOULD NOT DIRECTLY SUPPORT LDC CONSUMPTION EXCEPT TO SUSTAIN SUBSISTENCE LIEF-SUPPORT LEVELS IN FACE OF NATURAL DISASTERS SINCE LDC CONSUPMTION IS CONSEQUNTLY LINKED TO LDC EARNINGS, THEIR PRESENT ACTION APPEARS FOCUSED ON FORCING INCREASE IN EXPORT EARNINGS. MOST NOTABLE EXAMPLES ARE OPEC CARTEL EXERCISE OF OLIGOPOLY POWER TO INCREASE CRUDE PRICES AND ALGERIAN CALL FOR OTHER LDC RAW MATERIAL PRODUCERS TO FOLLOW SUIT. OTHER LDC POLICIES WHICH ALSO FALL IN SAME CATEGORY INCLUDE COMMODITY AGREEMENTS PROVIDING FOR ARTIFICIALLY HIGH FLOOR POLICIES AND PREFERENTIAL LDC SHARING IN SDR CREATION. ALL THESE POLICIES SEEM TO HAVE ONE GOAL: INCREASING FREE FOREIGN EXCHANGE EARNINGS TO SUPPORT INCREASED CONSUMPTION.

5. USG OPPOSES THESE PROPOSALS FOR LEGITIMATE REASONS, FOR EXAMPLE, US CONGRESS OPPOSES RESOURCE TRANSFERS WITHOUT PROVISION FOR ADEQUATE AUDIT CONTROL. MOREOVER, ARITICULLY HIGH COMMODITY PRICES ARE FORM OF CONSUMER TAXATION AND, THEREFORE, ARE NOT DEEMED APPROPRIATE VEHICLE TO TRANSFER DEVELOPMENT RESOURCES. FINALLY, ROLE OF SDR AS BASIC INTERNATIONAL RESERVE CAN BE UNDERMINED BY LDC PRESSURE FOR EXCESSIVE CREATION TO SUPPORT CONSUMPTION.

6. UNFORTUNATELY, OTHER DC GOVERNMENT ARE PREPARED TO ACCEPT INDIRECT RESOURCE TRANSFER MECHANISMS IN LIEU OF ALLOCATING DIFFICULT-TO-RAISE DIRECT TAX REVENUES. FRENCH, IN PARTICULAR, HAVE TRADITINALLY USED CONSUMER TAXES FOR THIS PURPOSE. THUS, USG TENDS TO APPEAR IN ROLE OF ISOLATED OBSTRUCTIONIST.

7. ALTERNATE USG APPROACH TO LDC REQUIREMENTS, HOWEVER, DOES
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NOT AS YET APPEAR TO BE FORTHCOMING. US CONGRESS HAS NOT YET APPROVED GENERALIZED PREFERENCE SCHEME NOR COMPLETED ACTION ON 043VIOUSLY AGREED USG CONTRIBUTION TO IDA REPLENISHMENT. IT IS FAIR TO SAY MOST LDC COUNTRIES DO NOT VIEW OUR OR ANY BI- LATERAL AID PROGRAM AS ATTRACTIVE ALTERNATIVE TO IDA FUNDING IN TERMS OF POLITICALLY NEUTRAL RESOURCE TRANSFER MECHANISM. WIDELY HELD CONCLUSION IS THAT USG IS NOT SERIOUSLY INTERSTED IN EFFECTIVE RESOURCE TRANSFER TO LDCS, WHO SEE NO ALTERNATIVE

BUT CONFRONTATION.

8. CRUCIAL ISSUE, THEREFORE, IS POSSIBILITY FOR USG ADOPTION OF STRATEGY MEANINGFUL TO LDCS AND ACCEPTABLE TO US ELECTORATE. SUCH POSSIBILITY WOULD APPEAR TO EXIST. WHEREAS US, ALONG WITH OTHER DCS, WILL NOT UNDERWRITE LDC CONSUMPTION, DCS APPAREL WILLING TO UNDERWRITE VIABLE LDC INVESTMENT IN BROAD SENSE OF TERM. WE SEE PRAGMATIC MEANINGFUL DC COMMITMENT TO SUCH INVESTMENT STRATEGY AS INCLUDING FOLLOWING ELEMENTS:

A. INVESTMENT IN MINERALS AND MANUFACTURING WILL BE LEFT TO PRIVATE SECTOR IN CONJUNCTION WITH GOVT-SUPPORTED EXPORT CREDIT INSTITUTIONS. VIABLE PROJECTS IN THESE AREAS ARE BY DEFINITION SELF-SUPPORTING AND SHOULD NOT CONSTITUTE BURDENS ON LDC FOREIGN RESERVES. OBLIGATION REMAINS ON LDCS TO CREATE FAVORABLE INVESTMENT CLIMATE AND VIABLE REGIONAL MARKETS. DCS IN TURN MUST BE PREPARED TO PURCHASE LDC PRODUCTION AT LEAST AT COMPETITIVE TRULY COMMITTED TO NON-DISCRIMINATORY TRADE ON BASIS OF COMPARATIVE ADVANTAGE.

B. DC GOVTS WILL COMMIT THEMSELVES TO UNDERWRITE ON IDA TERMS INVESTMENT IN INFRASTRUCTURE, AGRICULTURE, EDUCATION, HEALTH, AND OTHER SECTORS NOT SUITABLE TO COMMERCIAL FINANCING. THIS PROCEDURE HOLDS ONLY HOPE FOR AVOIDING BUILDUP OF UNSUSTAINABLE LDC EXTERNAL DEBT BURDENS. MODALITIES FOR SHARING FINANCIAL BURDEN MUST BE WORKED OUT AMONG DCS AND OIL PRODUCERS, BUT WE WOULD CONTEND SUCH OPEN-ENDED COMMITMENT IS HIGHLY PRACTICABLE. FIRST, GEOGRAPHIC SCOPE OF COMMITMENT SUBJECT TO JOINT DC/LDC NEGOTIATION AND WILL HOPEFULLY SHRINK AS NATIONS MOVE INTO SELF-SUSTAINING CATEGORY. THUS, STRATEGY INCLUDES SOUGHT FOR DIFFERENTIATION OF LDCS ACCORDING TO SITUATION AND INTERESTS. IN ADDITION, DEVELOPMENT ECONOMISTS ARE INCREASINGLY AWARE THAT BASIC CONSTRAINT ON INVESTMENT IS NOT LACK OF FUNDS. IN THIS

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EGARD, GROWTH OF UNDISBURSED IBRD AND BILATERAL DEVELOPMENT LOAN BALANCES IS SELF-EVIDENT. LDCS SEE MAJOR CONSTRAINT ON INVESTMENT LEVELS TO BE INABILITY OR UNWILLINGNESS DC GOVERNMENTS AND MULTILATERAL INSTITUTIONS TO FINANCE LOCAL COSTS. ALTHOUGH THIS CONTENTION MAY MERELY DISGUISE CORE PROBLEM OF LDC ADMINISTRATIVE INCAPACITY, INCREASED DC PROBABLY MOST MEANINGFUL AREA OF INCREASED DC COMMITMENT TO LDC DEVELOPMENT. PROPOSAL MOST MEANINGFUL AREA OF INCREASED DC COMMITMENT TO LDC DEVELOPMENT. PROPOSAL TO ASSIGN SOME PROPORTION OF SDR CREATION TO FUND LOCAL COSTS OF IBRD PROJECTS IS IN THIS REGARD WORTHY OF CONSIDERATION.

C. IF LOCAL COST FUNDING OF LDC INVESTMENT PROJECTS IS ASSURED, CONSTRAINT ON LDC INVESTMENT LEVELS WILL BE THEIR ABILITY TO MOBILIZE BUDGETARY RESOURCES FOR OPERATING COSTS. THUS

ISSUE IS CLOSE TO CLASSICAL ECONOMIC CHOICE BETWEEN CURRENT AND FUTURE CONSUMPTION: FOREIGN SUPPORT WOULD THEREFORE BECOME FUNCTION OF DOMESTIC WILLINGNESS TO TAX.

D. CLEARLY DC SUPPORT OF AGRICULTURAL RESEARCH AND LDC FAMILY PLANNING EFFORTS AS WELL AS OF COMMODITY AGREEMENTS STABILIZING PRICES OVER LONG-TERM CYCLICAL TREND WOULD BE TOTALLY COMPATIBLE WITH ABOVE STRATEGY.

9. WE SEE FIRST STEP IN USG COMMITMENT TO ABOVE STRATEGY TO BE RAPID APPROVAL OF IDA REPLENISHMENT AND GENERALIZED PREFERENCE SYSTEM. USG REVIEW OF SDR LINK WOULD ALSO BE APPROPRIATE AS DISCUSSED ABOVE.

10. STRATEGY SHOULD BE SEEN AS COUNTER-OFFER TO EFFORTS TO ESTABLISH COERCIVE RAW MATERIAL PRODUCER CARTELS. MEANINGFUL OFFER OF CLEAR CONCRETE BENEFIT TO ALL LDCS WHO REQUIRE SUCH INVESTMENT UNDERWRITING SHOULD WEAKEN LDC SUPPORT FOR CARTEL APPROACH OFFERING UNCERTAIN PROSPECTS OF SUCCESS COULD ALSO BE LINKED TO LDC SUPPORT FOR RULES CONCERNING FAIR COMPENSATION FOR NATIONALIZED PRIVATE INVESTMENT.

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